



COUNTY OF LOS ANGELES DEPARTMENT OF CONSUMER AFFAIRS

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PASTOR HERRERA, JR.
DIRECTOR

March 25, 2002

Board Agenda Item #35 3-26-02

To: Each Supervisor

From: Pastor Herrera, Jr.
Director of Consumer Affairs *[Signature]*

Re: **LA VINA DEVELOPMENT - ALTADENA**

Board Motion

On March 12, 2002, your Board requested that the Department of Consumer Affairs and the Office of County Counsel investigate the foreclosure of 26 homes in the La Vina development in Altadena and determine the rights and recourse of the buyers who have paid deposits on homes.

Background

Approximately 26 families have opened escrow for the purchase of homes in phase three (3) of the La Vina project in Altadena. The buyers have each deposited \$10,000 in escrows being administered by Orange Coast Title of Santa Ana. The escrows were opened as early as September of 2000 and have not closed due to the halting of construction in November of 2001 caused by serious financial difficulties encountered by the developer. Additionally, many of the prospective home buyers have paid the developer as much as \$60,000 for upgrades such as flooring and counter tops.

The Developer, Compass Homes/La Vina Estates, LLC, is a builder of upscale homes with current developments in Los Angeles, Orange and Riverside counties. There are two construction loans secured against the 26 homes. There is a first trust deed in the amount of \$10 million held by Prism Builder Financial Group/Prism Mortgage and a second trust deed for \$4 million that is held by Lehman-Ali. There is also approximately \$1.6 million in mechanics liens against the property by various sub-contractors who did work on the project and have not been paid.

Our Department has interviewed nearly half of the potential home buyers and we have visited the La Vina development to inspect the subject properties. As coordinator of the Real Estate Fraud Task Force, we have also met with representatives of the Sheriff's Department, the Department of Real Estate, the Auditor Controller, and County Counsel to evaluate the situation.

Our Department coordinated with the Office of the County Counsel to prepare the following report.

Buyers Rights and Recourse

Since Compass Homes defaulted on their loan, Lehman-Ali, the second trust deed holder, has initiated foreclosure proceedings and the homes are scheduled for a Trustee Sale on March 28, 2002. If the foreclosure sale proceeds as scheduled, or at some time thereafter, the rights and recourse of the buyers are as follows:

- Money's paid into escrow by the buyers (\$10,000 each) are refundable to the buyers as required by law. We have contacted Orange Coast Title Company and they have advised us, in writing, that at this time, homeowners can cancel the escrow by simply sending Orange Coast Title a written notice of cancellation. The amount in escrow will be refunded to the buyers within 30 days.
- Monies paid by the home buyers to Compass Homes or directly to a subcontractor for upgrades are unsecured. Our investigation has failed to establish that any of these monies were placed into escrow. A successful bidder at the trustee sale would not be obligated to refund or credit such monies to the buyers.
- Our investigation has discovered that Compass Homes posted a purchase money surety bond in May of 2001, for \$1.5 million. We have notified the prospective home buyers of this bond and of their right to file a claim.
- Lehman Ali, the foreclosing entity, sent a letter to the 26 potential home buyers this week, stating that they are creating a business entity to bid on the development at the foreclosure sale. If successful, they state they will refund or credit the monies paid for upgrades, but will not honor the contracted selling price of the homes. The potential home buyers will have to bid for their homes at current market values.

- The buyers have informed us that they have contacted legal counsel regarding possible remedies available at law.

Next Steps

We will be attending the Trustee's sale on March 28, 2002 and will be meeting further with the members of the Real Estate Fraud Task Force, which includes representatives of the District Attorneys Office, to insure that appropriate action is taken regarding the subject transactions.

(LaVinaBoardReport)

C: Each Chief Deputy
Each Department Board Liaison
Lloyd W. Pellman, County Counsel
David E. Janssen, Chief Administrative Officer